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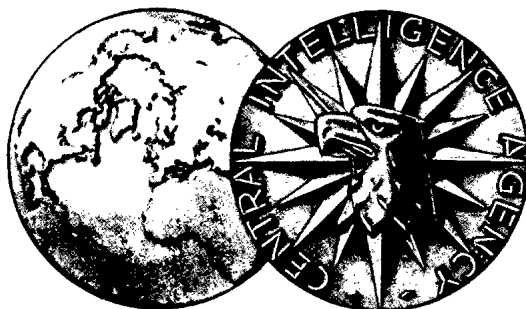
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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. Developments in the Far East, Europe, and within the US have increased the Soviets' confidence in the strength of their power position vis-a-vis the West. In continental Western Europe growing public skepticism of the adequacy of Western defense policies and a revival of tendencies toward neutrality have advanced Soviet objectives.

2. Signing of the Sino-Soviet treaty denotes the maintenance of a working arrangement between the two greatest Communist powers. The USSR probably will continue, both cautiously and with determination, its planned infiltration in Chinese political, military, and economic affairs.

3. Communist control of Indochina, under present conditions, can be prevented only if the Vietnamese are convinced that real independence will be achieved through Bao Dai and not through Ho Chi Minh.

4. The constant possibility of hostilities between India and Pakistan contributes to in-

stability in South Asia. In Iran, the pro-Soviet Tudeh Party has been increasingly active. Peace negotiations between Israel and Jordan have encountered Jordanian resistance.

5. The Greek election has not revealed a more stable political situation in the country.

6. In Yugoslavia, Tito's improved status, both economically and politically, should enable him to resist successfully increased Russian pressures short of direct military attack.

7. In Germany, growing sentiment for unification is sharpening the contest for eventual control between the USSR and the West.

8. Although the security of the US will not be directly affected by the stalemate resulting from the British election, the outcome is unsatisfactory from the point of view of both the UK and the US.

9. In Latin America, there is an increased possibility for an improvement in US-Argentine relations.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information contained herein is as of 10 March 1950.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

1. Soviet Confidence and Western Uneasiness.

Recent developments, particularly in the Far East, Europe, and within the US have increased the confidence of the Soviets in the strength of their power position as compared to that of the US and the West. The signing of the Sino-Soviet defense alliance, the critical status of the French in Indochina, internal dissension in South Asia, the revival of neutrality sentiment in continental Western Europe, and influential, though unofficial, demands in the US for a renewed effort to seek a modus vivendi with Moscow may cause the USSR to conclude that current conditions favor more aggressive pressure in all sensitive areas. Moscow may well estimate that at no time in the past two years has it been in such a relatively strong position to extend its influence by all means short of war.

The USSR may interpret the current uneasiness in the US over a potential H-bomb armaments race, added to the present atomic weapons contest, as an indication of wavering US determination to oppose Soviet expansion in areas where definite US commitments would not be challenged. Soviet propaganda is already exploiting these indications of US anxiety. In pursuit of its drive to divide the West, the USSR is attempting to foster latent fears among US allies that US public opinion may force a shift in policy. At the same time, the USSR is capitalizing on its improved power position to encourage a policy of neutrality among all nations.

However, the USSR probably regards recent defeatist tendencies among the free peoples of the European continent as one of the West's most vulnerable points. Although official support for NAT and MDAP has not weakened—in fact the French and Italians are firmly dealing with Communist efforts to interfere with US military aid shipments—yet a public skepticism of the adequacy of Western defense policies under present circumstances

is becoming evident in Northern and Western Europe. Since the signing of NAT nearly a year ago and its implementation through MDAP—only commencing to become visible now—important changes have occurred in the relative military potentials of the US and the USSR. Soviet acquisition of the atomic bomb sooner than anticipated and particularly the recent US H-bomb announcement have dramatized the horrors of such an arms race with its catastrophic possibilities. Stirred by the consequences of such a conflict between the two great powers, Europeans have recently begun to question whether the altered balance of power has invalidated the security assumptions of a year ago. At that time, the US monopoly of atomic weapons appeared to counterbalance Soviet superiority in conventional armaments. Europeans believed that they had sufficient time to rebuild their military strength before the USSR could offset the US atomic capability. Now they are aware of the rapidly developing Soviet war potential at the same time that the US seems unlikely to accelerate the building up of its own and Western Europe's military power. Under these circumstances, with Communists in control from the Pacific to the Elbe, there is less confidence in US ability to contain such a vast expanse of Soviet power.

In addition, continental Europeans, reflecting the psychological effects of two world wars, are once again revealing a sense of hopelessness in their capacity to affect the outcome of a struggle between the two great world powers. Always conscious that their countries have been the main battleground in these global conflicts, they have been giving expression to fears that, by increasing their military strength, they may be placing their countries in the forefront of the fight.

Despite these feelings of frustration and despair, European governmental leaders recognize the lack of realism in such neutral-

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ity sentiments and fully understand that political and military ties with the US provide the only alternative to their countries' becoming Soviet Satellites. Nevertheless, this popular uneasiness and longing for a more reliable form of security will remain close to the surface in Europe. It can best be dispelled by improvement of economic conditions and by constant evidence of firm US determination and ability to resist Soviet aggression.

2. Implications of the Sino-Soviet Treaty.

After two months of negotiation the signing of the Sino-Soviet treaty in Moscow on 14 February formally allied the two greatest Communist powers. Whether the Peiping regime will be content with its role as a junior partner, and whether the alliance will survive whatever discontent may develop, can only be revealed by the unfolding of events. At present, prospects appear favorable for a working arrangement to be maintained between the USSR and China, probably including coordinated plans for further Communist advances in Asia. The published terms of agreement indicate that Moscow, smarting under the deviation of Titoism and conscious of the stakes in China, recognizes the necessity of according the Chinese at least the outward signs of a world power representing more than four hundred million people.

Soviet sensitivity to Chinese nationalist sentiment is reflected in the treaty's published provisions, but the crucial issue is the implementation not only of the treaty but also of the unpublished agreements which were presumably concluded at the same time. In essence, the question is whether Soviet doctrine will permit the USSR to move slowly in its effort to transform Soviet influence into Soviet control, and whether the USSR will be successful in convincing the Peiping regime that it is not being treated as a Satellite. If, as Moscow's relations with all other Communist states would strongly suggest, the USSR attempts rapidly to establish its control over China, it may provoke such serious resistance as to threaten or even to destroy the present alliance. However, if the USSR proceeds gradually, it will probably be able to minimize Chinese dissidence until such time as the Rus-

sians can deal with it effectively. In either event, Moscow can be expected to encourage the Chinese Communists to reduce and finally to eliminate US influence in China. Under present circumstances, the USSR will attempt to utilize US status in Japan, US non-recognition of Mao's government, and association with the French in Indochina to propagandize the idea that Communist China's destiny lies with the USSR.

By reviving fears of Japanese conquest and implying the association of US "imperialist" aggression, the published treaty of mutual defense, which merely formalized the previous defense relationship of the two powers, is intended to quiet Chinese distrust of Soviet intentions. But, in preparation for the contingency of war with the US, it is probable that secret agreements will enable the USSR to establish a closer working relationship with the Chinese military establishment. Joint development of Chinese naval and air bases as well as Russian supervision of Chinese technical training especially in aeronautics would appear to be mutually advantageous. Although Chinese nationalist aspirations are recognized in the publicized decision for the return of Port Arthur, Dairen, and the Changchun railway to Chinese control, these provisions need not become effective until 1953, at which time the USSR may invoke the military clauses of the pact, and an alleged threat of war, to retain these strategic assets.

The five-year \$300-million credit for the purchase of Soviet capital goods may culminate in the successful establishment by the USSR of its influence over vital segments of the Chinese economy. On the basis of practice adopted in satellite dealings, Soviet trading firms, as well as technicians and advisers in Chinese industry, are expected to be introduced. If the Soviet credit is entirely devoted to industrial and railway equipment, as stated in the published agreement, it should appreciably assist an economy that is not sufficiently stabilized to absorb huge amounts of capital investment. However, if the USSR adopts the procedures followed in credits granted the satellite countries, then the Soviets will overrate the value of their goods, will deduct the costs of their technical ad-

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visory service, and will levy exorbitant transport charges. Thus the amount the Chinese receive would be substantially reduced, and the agreement would become a source of friction between the two governments. In addition to the Soviet credit, trade missions from Poland, Czechoslovakia, and Eastern Germany probably will arrange small barter deals exchanging Chinese agricultural products and minerals for industrial goods.

In Manchuria the Soviets would seem to have consolidated their present position. No mention was made, however, of the price they may expect when the time comes to turn over their present holdings in Dairen and Port Arthur. Although the published agreement did not refer to Sinkiang, it would seem probable that, since a Sinkiang delegation was present in Moscow, the USSR has been granted rights to develop, together with the Chinese, the natural resources of this area.

Because of its care to avoid indications of territorial aggrandizement or Russian domination of Chinese territories, the USSR is likely to disguise its penetration of the Peiping administration as much as possible. The ostensibly benevolent terms of the treaty have created an atmosphere favorable to the steady extension of Soviet control over the Chinese Communist Party apparatus, secret police, armed forces, and other important ministries. In addition, the Stalinist leadership of the Peiping regime has gained increased prestige from the new treaty, and may soon take action against some anti-Soviet elements in the Party.

On balance it would appear that the USSR, mindful of previous failure in China and conscious of the importance of a Chinese Communist ally as a bulwark against US power in the Pacific, will continue, both cautiously and with determination, its planned infiltration in Chinese political, military and economic affairs.

3. Indochina.

While Communism increases its control over China, Western efforts to contain its spread to Southeast Asia have centered on Indochina. The pressures there have now reached such proportions that there is a question whether

any method of US aid can be devised, outside of unlimited commitments of US resources, that will enable Bao Dai, in view of his association with the French, to establish a firm regime backed by non-Communist Vietnamese.

Communist control of Indochina can be prevented only if the Vietnamese are convinced that real independence can be achieved through Bao Dai and not through Ho Chi Minh. The opposite opinion now prevails in Vietnam. French imperialism is familiar and present. The elimination of French control is obviously prerequisite to independence. It is not so obvious to the Vietnamese that Ho's victory would substitute Soviet or Chinese imperialism.

The crux of the matter is the position of France in Indochina. So long as the Bao Dai regime is dependent on French military protection and apparently subordinate to France, it cannot carry conviction as the means of achieving independence. A settlement between France and Vietnam comparable to that between the Netherlands and Indonesia might have succeeded if it could have been reached several years ago. The present situation differs from that in Indonesia, in that Communism already has a firm lodgment in Vietnam as the champion of independence. Even with US aid, the Bao Dai regime could hardly survive an abrupt withdrawal of French forces. It is still conceivable that the situation might be saved by a grant of genuine independence and an orderly phase-out of the French.

It is highly improbable, however, that the French could be persuaded to act with sufficient speed and decision. They have heretofore resisted all demands for new concessions to Vietnam on the basis that "unrealistic nationalist appetites" in Indochina would be stimulated and a severe political crisis would be provoked within France where it is felt national prestige is at stake. In addition the French Government fears that such a precedent would lead to similar demands throughout other areas of the French empire.

Ho's recent request for Yugoslav recognition in addition to that of all other nations may well have been dictated by internal political factors. To retain the adherence of non-Communist nationalists, it is necessary

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for him to demonstrate an apparent freedom from Soviet control. Moreover, like other Communist leaders who have fought for national independence, he may well be disposed to resist any foreign domination while carrying out a Communist program of internal reform.

4. Instability in South Asia.

The value of South Asia as a bulwark against expanding Asiatic Communism continues to be impaired both by India's attitude of detachment toward the problem and by instability within the area. Even though the Indian Government is strongly opposed to the Communists and has been disturbed by the approach of Communism to its borders, Nehru has persisted in his policy of aloofness toward the struggle between the Communist bloc and the West. He views such Asiatic Communists as Ho Chi Minh as opponents of colonialism rather than as likely precursors of Soviet imperialism and consequently disapproves of Western support for Bao Dai in Indochina. So long as Nehru is not alienated by the truculence of the Chinese Communists, his determination to maintain good relations with them probably will not be weakened materially unless India finds itself confronted with major Communist pressures from Tibet, a threat to the independence of Nepal, or a government in Burma which is not only Communist but clearly dominated by Peiping or Moscow.

At the same time, tensions within the South Asia area have become more intense. The Kashmir dispute is still unresolved, and intensive economic warfare between India and Pakistan has persisted for nearly six months. In addition, bitterness between the two states has been recently inflamed by a series of Hindu-Moslem outbreaks in the densely populated border provinces of East and West Bengal—disturbances which if renewed under the stress of mounting economic hardship might conceivably touch off a wave of communal violence throughout the subcontinent. There is little likelihood that India would actually send troops across the Pakistan border into East Bengal. However, India's violent expressions of concern over the safety of its Hindu co-

religionists there serve at least to encourage in Pakistan the strong undercurrent of belief that war provides its only hope of preventing dismemberment and eventual strangulation. Thus a resort to open warfare, perhaps as early as this spring, remains a constant possibility.

Pakistan has at the same time become more deeply involved in its cold war with Afghanistan, to the obvious advantage of India. In reply to Afghanistan's persistent effort to stir up sentiment for an independent "Pushtoonistan" among Pakistan's frontier tribesmen, the Karachi government has now launched a counter-propaganda campaign addressed not only to its own tribesmen but also to their racial brethren across the frontier, on whose loyalty the stability of the Afghan Government ultimately depends; in addition, the Pakistanis have eyed with interest signs of dissension in the Afghan ruling group. Thus, though Pakistan and Afghanistan are unlikely to engage in armed conflict, both are employing tactics which might be followed by outbreaks among the tribesmen, particularly on the Afghan side of the border.

In Iran, deteriorating economic conditions, causing serious distress and unrest, have been accompanied by increased activity on the part of the outlawed, pro-Soviet Tudeh Party. Unless extraordinary relief measures are taken promptly, general popular resentment could become sufficiently widespread so that the government's authority would be endangered. Meanwhile the Tudeh Party, which has been receiving financial and moral support from the USSR, will continue to exploit any opportunity to undermine the present regime.

The prospects for stabilization of the Palestine situation remain far from good. The government of Israel and King Abdullah of Jordan recently took a major step forward by tentatively agreeing in principle on a five-year non-aggression pact which would restore normal commercial relations between the two countries while avoiding the question of a territorial settlement. But refusal of a Jordanian Cabinet to accept responsibility for the treaty has apparently blocked further progress, at least until after Jordan's April elections.

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5. The Greek Election.

The Greek election held at the beginning of this month did little to promote the increased stability toward which US efforts there are directed. The Greek people, expressing their political preferences for the first time since the troubled days of 1946, rendered an essentially divided verdict despite the strong support accorded the left-center group under Plastiras. The effectiveness and stability of any coalition government which is formed will be impaired by the difficulty, in the face of a strong opposition, of reconciling the demands of its several nearly equal components. Indeed, it is quite possible that no viable combination will emerge, thus necessitating the calling of new elections in which the divisive issue of the King's role in the government might be revived.

6. Yugoslavia.

With the coming of spring weather, Yugoslavia probably will be subjected to increased Cominform pressure of the kind resorted to in the past. While Soviet leaders may not expect such pressure to bring about the early collapse of the Tito regime, they may well hope thus to hamper the development of Yugoslav stability and to neutralize the effects of Western aid. Moreover, the USSR may believe that unless some action towards these ends is taken in the near future, economic assistance and moral support from the West will soon render Tito a far more formidable problem than at present. While Soviet pressure is most likely to be confined to guerrilla activity, sabotage, and subversion, direct military action is a continuing possibility.

The USSR has sharpened its propaganda line against the Tito government by emphasizing the theme that he has become a "Fascist tool" of Western "imperialism." Although probably confident of its ability to prevent the spread of Titoist doctrine, the USSR can never relax its vigilance and must continue to purge suspected deviationists in the world Communist movement. If Titoism appears likely to extend to areas where Soviet control is still incomplete but vital to Soviet power aims, the USSR might resort to more aggressive methods.

The Yugoslav Government, for its part, is making strenuous efforts to counter this Russian propaganda line by asserting its policy of Communist orthodoxy and complete independence of the West. Tito's boldest gesture in this sense was his recent recognition of the Asiatic Communist, Ho Chi Minh. Thus, Tito is deliberately strengthening his ideological position in what may well be a prolonged doctrinal conflict.

Tito's status, both economically and politically, has improved. Continued Western aid, of which the \$20 million Export-Import loan was the latest example, has made it possible for the program of industrial expansion to be developed. However, Yugoslavia's balance-of-payments deficit still places a severe strain on its foreign exchange resources and necessitates an intensive drive for marketable exports, with consequent heavy demands on the population. So far the intensely nationalist Yugoslavs have shown a willingness to make these sacrifices in the interest of survival. In view of the fact that the Yugoslav economy is basically sound, the gradual development of economic stability should strengthen the government. Nevertheless, Yugoslavia is still confronted by the serious problems posed by the necessity for proper allocation of its foreign exchange earnings and for expert technical advice.

In preparation for the national elections on 26 March, Tito has sought to consolidate his support among the mass of the people and is placing greater emphasis on the People's Front, which comprises over half the population. Though a typical Communist control instrument, it provides a mechanism which might conceivably be used to allow non-party elements a more active role in the administrative as well as the productive life of the country. The Yugoslav leaders have made it clear, however, that no opposition parties will be tolerated.

7. German Unification.

The struggle between the USSR and the West for the control of Germany is focusing on the growing sentiment for unification. For three years Moscow has been utilizing various political devices in Eastern Germany to press

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for a unified nation. More recently, the National Front organization of the East German Republic has been making contact with West German politicians and organizations who regard the uniting of the two Germanies as essential in order to restore German influence in Europe. This desire, as yet unorganized in a coordinated movement, has recently been gaining ground in West Germany in a variety of circles.

The weak condition of the West German economy has accelerated public demands for some political action that may ease the serious unemployment situation. Many industrialists and businessmen in the Federal Republic are increasingly inclined to look towards the East for raw materials and markets. The pressure for the lifting of the Federal Republic's embargo on steel deliveries to the East Germans has clearly revealed this attitude. In contemplating the termination of the ERP two years hence, West German industrialists believe that their future economic stability can best be achieved through a revival of their former trade ties with Eastern Europe. A unified nation would, in their view, accomplish this aim.

Increasing cohesion can be anticipated among the rightist-nationalist groups that have been advocating unification under various terms. In addition, organizations of intellectuals advocating neutralization of a united Germany in the East-West struggle have been gaining strength. Many of the nationalist groups, despite their anti-Communist orientation, would not be averse in principle to coming to an understanding with the USSR or the East German Republic if they felt they would strengthen their own power in a united Germany. There is some danger that such irresponsible groups may be able to enlist the support of the ten million refugees and expellees in Western Germany who have not been successfully assimilated into the major parties and who tend to favor extremist solutions to alleviate their apparently hopeless situation.

The only effective means of countering Communist and rightist-nationalist propaganda for unification would appear to lie with the present moderate west German parties and

would consist in these parties making clear their positions with respect to German unity.

The Free Youth rally of the East German Communists in Berlin on 28 May will be an indication of the attraction which unity under Communist leadership holds for Germans under Western control. At a mass demonstration the East Germans hope to win visible support for their form of German unification from the people of West Berlin. The East Germans and their Soviet sponsors are counting on the deteriorating economic conditions of the West Berlin workers to weaken their allegiance to Western ideals. West Berliners have had their confidence in the US shaken by the drop in West German trade resulting from the Soviets' continued interference with barge and truck traffic. Although the Adenauer government has subsidized the Berlin economy for some time under US prodding, it will now have a more important reason for doing so. However, as long as the USSR—apparently confident at this time that West Germany will ultimately join the Eastern camp—insists on unification under Communist direction, there will remain substantial resistance in the Bonn Republic to the acceptance of any such terms.

8. Consequences of British Election.

Although the security of the US will not be directly affected by the stalemate resulting from the British general election, the outcome is unsatisfactory from the standpoint of both the UK and the US. The period of political maneuvering which preceded the election and which hindered decisive action at home and abroad is likely to continue; one or more general elections may be required before Britain obtains a government with an adequate parliamentary majority. No change in foreign or defense policies is to be expected, since both the Conservative and Labor parties are in essential agreement on them.

It is in the field of domestic policy that the indecisive nature of the election result will have the most adverse effects. In the present parliamentary situation, neither party is in a position to pursue unpopular policies, and a middle-of-the-road program may not be adequate to combat inflation, with its consequent effects on the British international position.

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A non-committal, "caretaker" policy is probable, especially since the Laborites need Liberal support. The first major parliamentary test of the new Labor Government's economic program is likely to come when Sir Stafford Cripps presents his budget in April.

Since there is no indication that either the Conservatives or Labor will enter a coalition, the probability is that a new election will be held in the late summer or early autumn of 1950. Unless a new and overshadowing issue should arise, there is considerable reason to believe that Britain may be perplexed for some time by governments with inadequate majorities. The fact that 85 percent of the electorate registered less than a three percent shift from the 1945 division of votes between the two major parties indicates that no significant rightward movement in public opinion has occurred. The decisive defeat of the Communists and fellow travelers, however, as well as the submergence of the left-wing Laborites in the party's councils reveals that the British voters oppose any extreme leftist direction of their affairs.

Distracted by domestic political considerations and under the leadership of the same personalities, the British Government will lack that fresh energy for the long pull which would add considerable strength to the Western Powers at the present time.

9. US-Argentine Relations.

There is an increased possibility for an improvement in US-Argentine relations that

would advance US interests both in Hemisphere solidarity and in Argentine economic stability. During past months, persistent economic dislocations and the pressure of an increasingly stringent financial situation, caused by shortages not only of dollars but also now of sterling, have intensified Peron's appreciation of the necessity for at least limited economic collaboration with the US. Although his political commitments in favor of state control of industry and his dependence on the support of anti-US nationalists will make collaboration difficult for Peron, recent events indicate some progress in this direction.

The head of Argentina's National Economic Council, for example, has suggested that a US-Argentine Treaty of Friendship and Economic Development might assist in solving mutual problems and in attracting foreign capital. More recently the Argentine Government, now believing financial assistance from the US Government essential to improved economic stability, has offered certain assurances that it will revise its economic policy so as to qualify for such US aid. Even though present dollar earnings are so reduced as to preclude any quick liquidation of Argentine dollar arrears to US firms, regular payments were undertaken a few months ago. Peron is now finally recognizing that he must satisfy the legitimate needs of US business operating in Argentina, particularly against the danger of expropriation.

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